Understanding Real Estate Terminology

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Every industry has its own language and real estate is no exception. The trouble is that real estate agents and lenders are dealing with consumers, and often they forget that what they're saying may seem like a foreign language to outsiders. Today we thought we'd interpret some of the more common terms you'll encounter when buying or selling a home.

Addendum – An addendum is a form used to make changes to the purchase agreement after it's been accepted by both the buyer and the seller.

For instance, if you find problems that the home inspection turned up and want the seller to remedy them, we would submit an addendum to the contract stating that the seller will pay for repairs or replacement. If the seller signs the addendum it becomes part of the purchase agreement.

Contingency – Contingencies are promises in the purchase agreement. As an example, most offers to purchase are contingent on the home appraising for at least the amount of money you will be borrowing. In other words, you are telling the seller that you agree to continue with the purchase if "X" happens by a certain date.

A contract to purchase may contain several contingencies. When they are all satisfied, you are legally obligated to consummate the purchase.

Counteroffer – If the seller doesn't agree with the offering price or any terms of the purchase agreement, he or she may submit to the buyer a counteroffer stating different terms or a different price.

Disclosures – Disclosure forms are used by the seller to tell the buyer about anything that may affect his or her enjoyment of the home, comfort and safety. The most significant disclosure here in Alaska, for example, is the Residential Real Property Transfer Disclosure Statement.

The **Real Estate Transfer Disclosure Statement** (TDS) describes the condition of a property and, in the case of a sale, must be given to a prospective buyer as soon as practicable and before **transfer** of title.

Earnest Money Deposit – The earnest money deposit is something that is confusing to many first time homebuyers. This is not the down payment which is a lender requirement, but an amount of money submitted with or shortly after an offer to purchase is accepted that lets the seller know you're willing to put some skin in the game and are earnest in your desire to purchase the home. It is also required by contract law as something known as "consideration."

The amount of the deposit can vary but plan on paying at least 1 percent of the purchase price. It will be held in escrow and applied to the purchase at closing.

Escrow – In real estate, an **escrow** account is a secure holding area where important items (e.g., the earnest money check and contracts) are kept safe by an **escrow** company until the deal is closed and the **house** officially changes hands. The escrow company then distributes the purchase funds according to the demands of the agreement to purchase.

Escrow Impounds – When your loan is approved, the lender will set up an account devoted to the holding of your prepaid insurance and taxes.

FHA mortgage – The Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD), guarantees home loans making it easier for those with less than perfect credit to obtain a mortgage.

Jumbo mortgage – The Federal Housing Finance Agency (FHFA) announces what is known as the "conforming loan" limits every year. Loans that exceed this amount are jumbo loans.

Loan-to-Value – Known as LTV, for short, loan-to-value refers to the ratio of the loan to the value of the home.

Investopedia gives the following example: "a borrower taking on a $92,500 mortgage to purchase a home appraised at $100,000 would have an LTV ratio of 92.50 percent (92,500/100,000)." Lenders consider loans with high LTVs (higher than 80 percent) risky.

PITI – This is short for principle, interest, taxes and insurance – the components of a mortgage payment.

Private mortgage insurance – Known as PMI for short, private mortgage insurance protects the lender if the borrower defaults. It is required by lenders when the borrower's down payment is less than 20 percent of the purchase price.

On conventional loans, PMI can be removed when the homeowner reaches 20 percent equity in the home. FHA's MPI (Mortgage Insurance Premium) remains as long as the borrower has the loan.

RESPA – This is short for the Real Estate Settlement Procedures Act of 1974 which requires lenders to provide borrowers, in a timely manner, with a disclosure about the costs of the loan.

Title – A legal document identifying the owner of a property.

Title Insurance – An insurance policy that protects against damages due to defects in the chain of title. There are two types of policies, one for the lender, which is mandatory, and one for the buyer, which is optional.

VA mortgage – Like the FHA mortgage, the VA mortgage is guaranteed by the government, in this case, the Department of Veterans Affairs. VA mortgages have no down payment requirement and are only available to current and former members of the U.S. military and their widows/widowers.